

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 1709

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

CINCPAC

C O N F I D E N T I A L KUALA LUMPUR 0249

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: EINV, MY

SUBJECT: DR. MAHATHIR ASSUMES TRADE AND INDUSTRY PORTFOLIO

REF: KUALA LUMPUR 0141 (DTG 060900Z JAN 78)

1. PRIME MINISTER HUSSEIN'S ANNOUNCEMENT THAT DR. MAHATHIR BIN MOHAMED, DEPUTY PRIME MINISTER (DPM) WAS ALSO ASSUMING THE POSITION OF MINISTER OF TRADE AND INDUSTRY HAS BEEN GREETED WITH UNRESTRAINED SATISFACTION BY DOMESTIC (PARTICULARLY THE CHINESE) AND FOREIGN BUSINESSMEN ALIKE. THIS HAS BEEN MOSTLY CAUSED BY THE POSITIVE IMAGE DR. MAHATHIR HAS ESTABLISHED IN THE BUSINESS COMMUNITY DURING THE PAST YEAR.

2. THIS FAVORABLE VIEW WAS STRENGTHENED IN HIS REMARKS TO REPORTERS SHORTLY AFTER TAKING OVER AS MINISTER IN WHICH HE MADE TWO POINTS THAT WERE QUICKLY PICKED UP IN BUSINESS CIRCLES FIRST, HE ANNOUNCED THAT A CENTRAL UNIT FOR INVESTORS WOULD BE
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SET UP IN HIS MINISTRY. THIS IS TO INCLUDE OFFICERS FROM THE VARIOUS GOM AGENCIES DEALING WITH INVESTORS WHO WILL BE EMPOWERED TO GRANT PERMISSION TO INVESTORS TO BEGIN OPERATIONS. DR. MAHATHIR HAS BEEN PUSHING THIS IDEA FOR SOME TIME AND THE ANNOUNCEMENT THAT IT WILL BE ESTABLISHED FORTUITOUSLY COINCIDED WITH HIS BEING NAMED MINISTER OF TRADE AND INDUSTRY. THE SECOND POINT HE MADE WAS HIS STATEMENT "I WOULD LIKE TO KNOW WHY FOREIGN

INVESTORS FEEL MALAYSIA IS A GOOD COUNTRY TO INVEST IN BUT NOT SO THE LOCAL INVESTORS." HE WENT ON TO SAY THAT HE WAS PREPARED TO CONSIDER ADJUSTMENTS IF NECESSARY TO ENCOURAGE LOCAL INVESTMENT. THIS ENTIRE STATEMENT WAS CLEARLY IN REFERENCE TO THE INDUSTRIAL COORDINATION ACT (ICA) AND THE RESULTANT SHARP DROF-OFF IN DOMESTIC CHINESE INVESTMENT SINCE ITS PASSAGE IN 1975.

3. COMMENT: IT IS, OF COURSE, TOO EARLY TO FELL IF DR. MAHATHIR INTENDS TO TAKE ANY ACTION MODIFYING THE ICA. WHILE STRONG POLITICAL ARGUMENTS AGAINST SUCH A STEP EXIST (SEE REFTEL). HE AND THE PM ARE PAINFULLY AWARE THAT THE THIRD MALAYSIA PLAN, WHICH IS BASED ON RELATIVELY HIGH LEVELS OF PRIVATE (PARTICULARLY DOMESTIC) INVESTMENT, HAS GREATLY FALLEN BEHIND TARGET. MOST OBSERVERS FEEL THAT GOM INFLEXIBILITY ON THE ICA HAS BEEN A MAJOR CONTRIBUTING FACTOR TO THIS DEVELOPMENT. DR. MAHATHIR DOES NOT HAVE THE PERSONAL COMMITMENT TO THE ICA THAT HIS PREDECESSOR HAD AND THUS AT LEAST ONE BARRIER TO ITS MODIFICATION HAS BEEN REMOVED.

4. IT IS PERHAPS USEFUL AT THIS JUNCTURE TO RECALL THAT DATUK HUSSEIN'S DECISION TO NAME DR. MAHATHIR AS DPM IN JANUARY OF 1976 WAS GREETED WITH GREAT CONSTERNATION BY SOME CHINESE BUSINESSMEN, WHO VIEWED HIM AS THE LEADING MALAY CHAUVINIST IN UMNO. THE BUSINESS COMMUNITY'S CHANGED PERCEPTION OF HIM AS ADVOCATE OF PRIVATE INVESTORS (INCLUDING CHINESE) REPRESENTS A TRANSFORMATION OF HIS PUBLIC IMAGE CONSISTENT

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WITH WHAT SEEM NOW TO BE HIS CONCERNS OVER THE LARGER INTERESTS OF MALAYSIA'S ECONOMIC DEVELOPMENT.
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